



Treasury Inspector General for Tax Administration

THE 2007 TAX FILING SEASON WAS GENERALLY SUCCESSFUL, AND MOST RETURNS WERE TIMELY AND ACCURATELY PROCESSED

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Highlights

Highlights of Report Number: 2007-40-187 to the Internal Revenue Service Commissioner for the Wage and Investment Division.

IMPACT ON TAXPAYERS

Each year, legislated tax law changes create complexities for both the Internal Revenue Service (IRS) and individual taxpayers. Overall, the IRS implemented these changes correctly with no significant delays in the processing of tax returns during the 2007 Filing Season. Through June 1, 2007, the IRS had processed approximately 123.7 million individual income tax returns and timely issued approximately \$223 billion in refunds to more than 99 million taxpayers.

WHY TIGTA DID THE AUDIT

The IRS expects to receive more than 136 million Tax Year 2006 individual income tax returns in 2007, with the vast majority being received and processed during the 2007 Filing Season. The filing season is a critical time for the IRS because it is when most individuals file their income tax returns and contact the IRS if they have questions about specific tax laws or filing procedures. One of the complexities the IRS encounters in processing these returns is the correct implementation of tax law and administrative changes.

The 2007 Filing Season presented additional demands for the IRS. Before the Filing Season began, the IRS Commissioner told Congress the IRS was at high risk due to high-profile administrative changes such as the Telephone Excise Tax Refund and the Split Refund option. Late enactment of tax legislation, which extended many expiring tax benefits, added risk to this Filing Season. The overall objective of the review was to evaluate whether the IRS timely and accurately processed individual paper and electronic tax returns during the 2007 Filing Season.

WHAT TIGTA FOUND

Overall, the IRS correctly implemented the key tax law and administrative changes for the 2007 Filing Season.

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While the IRS was able to overcome the high risks and timely and accurately process most tax returns, there were some areas in which taxpayers did not take full advantage of the benefits the tax law and administrative changes provided or improperly claimed benefits to which they were not entitled.

- Millions of taxpayers did not claim the Telephone Excise Tax Refund.
- Taxpayers made only limited use of the Split Refund option.
- Some taxpayers improperly claimed additional exemptions for housing Hurricane Katrina displaced individuals.
- Taxpayers older than age 70½ continued to claim improper Individual Retirement Arrangement (IRA) deductions.
- Many eligible taxpayers missed the opportunity to claim the sales tax deduction.
- Taxpayers continued to claim a "dual benefit" for both the tuition and fees deduction and the Education Credit.

WHAT TIGTA RECOMMENDED

TIGTA recommended the Commissioner, Wage and Investment Division:

- Revise the IRA worksheet in all tax instructions in which this worksheet is used to clearly state that taxpayers over age 70½ cannot take the IRA deduction.
- Develop a communication strategy to inform taxpayers they are eligible for a sales tax deduction, if they itemize and do not claim a State income tax deduction, and clearly outline that these taxpayers may be eligible to file amended returns for the past 3 years if they itemized deductions and did not claim any State or local income or sales tax deductions for any of the past 3 tax years.
- Ensure the new Tuition and Fees Deduction (Form 8917) is finalized prior to the start of the 2008 Filing Season and required for all taxpayers claiming the deduction for Tax Year 2007.

In their response to the report, IRS officials stated they agreed with all the recommendations. Management plans to revise the IRA worksheet, develop a communication strategy to inform taxpayers they are eligible for a sales tax deduction if they itemize and do not claim a State tax deduction, and advise how taxpayers can claim this tax benefit by filing amended tax returns. Additionally, Form 8917 should be available to the public by December 15, 2007.

READ THE FULL REPORT

To view the report, including the scope, methodology, and full IRS response, go to:

<http://www.treas.gov/tigta/auditreports/2007reports/200740187fr.pdf>.

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